Water Financing: Considerations for Climate Resilience Projects

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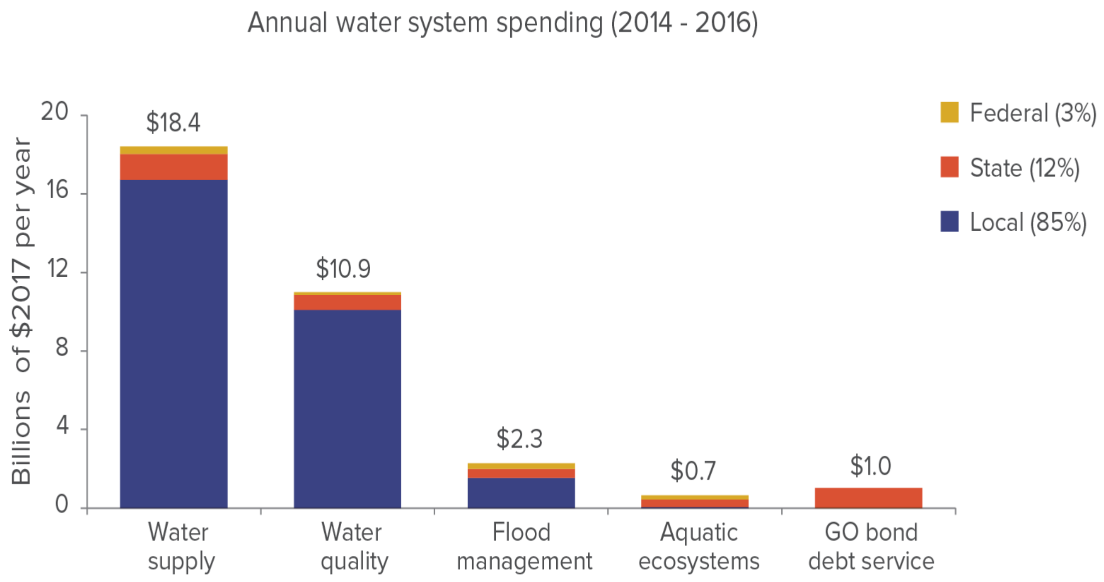
Sustainable funding sources are crucial for adapting to climate change and promoting water equity

- **Changing climate**: warming, more volatile precipitation, more intense droughts and floods
- **Increasing water scarcity**: especially in overdrafted basins
- **Growing water equity concerns**: safe and affordable drinking water, flood protection

Water users will continue to be the main funders



Source: Hanak et al. *California's Water: Paying for Water* (PPIC 2018)

Three constitutional reforms impact how locals pay for water services

1978	1996	2010
Prop 13	**Prop 218**	**Prop 26**
• Property taxes reduced • Local special taxes require 2/3 voter approval • State taxes require 2/3 legislative approval* * Ballot measures can still pass with simple majority (50%) of state voters	• General taxes no longer available to special districts • Local property-related fees/assessments: 1. Property-owner protest hearings 2. Strict cost-of-service requirements 3. Floods and stormwater*: new charges require 50% vote by property owners or 2/3 popular vote *2017 legislation may increase flexibility	• Stricter requirements on local non-property related fees and state regulatory fees (more likely to be taxes) • Stricter cost-of-service requirements for wholesale agency fees

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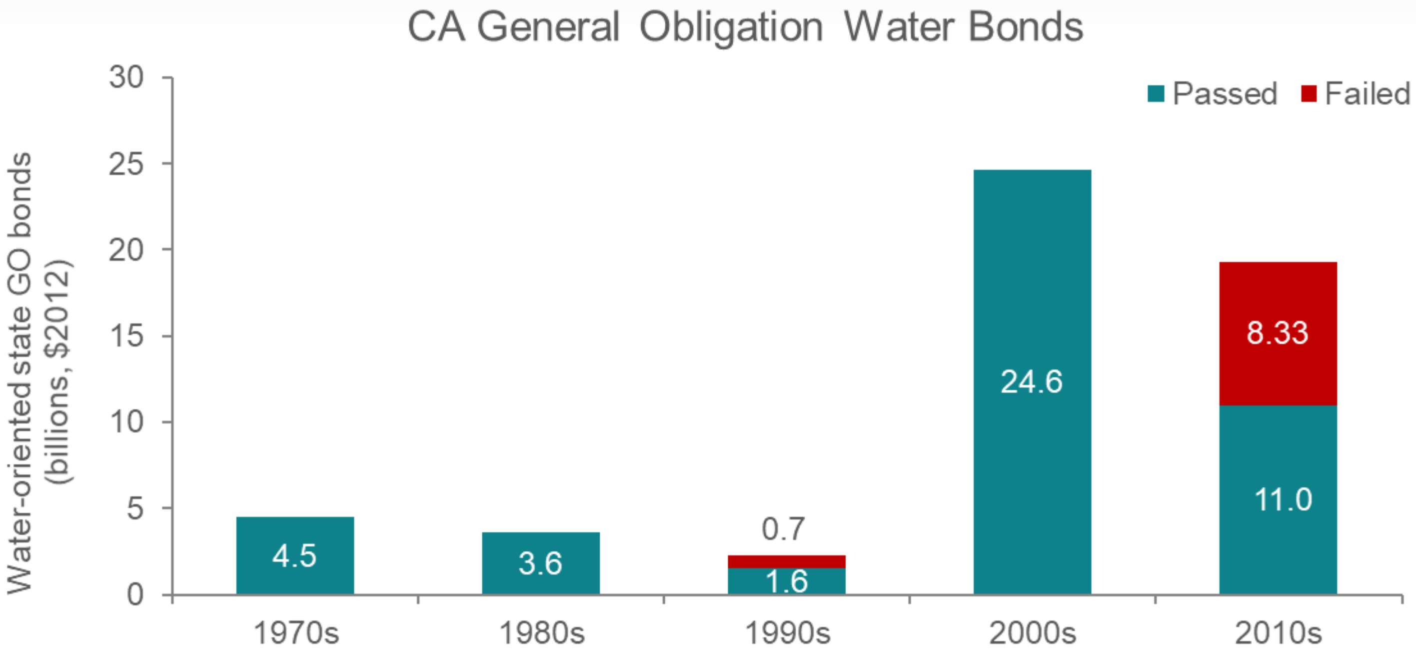
The changes have increased accountability, but with unintended consequences

- Cost-recovery requirement may inhibit local programs and rate structures
- Stricter voter requirements impede delivery of some essential water services
- Successful examples exist and could be modeled
  - It takes time to communicate costs and needs to ratepayers
  - Integrate to boost performance and funding options

Keeping water affordable for low-income households will be a challenge

- Water bills have been rising to keep pace with investments
- Agencies are extremely limited in their ability to provide basic service at reduced costs (lifeline rates)

State has used water bonds to help fill gaps—but bonds rarely spend more than $1B annually



Source: Compiled by PPIC from Department of Finance.

Other local, regional, statewide sources possible to boost funding for fiscal orphans

- New statewide fees and taxes are hard politically
  - Lessons from the SAFER fund
- Regional fees already exist and can serve as models
- Important to align incentives, avoid leaning on regressive taxes (e.g., sales tax)

Notes on the use of these slides

These slides were created to accompany a presentation. They do not include full documentation of sources, data samples, methods, and interpretations. To avoid misinterpretations, please contact:

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Thank you for your interest in this work.